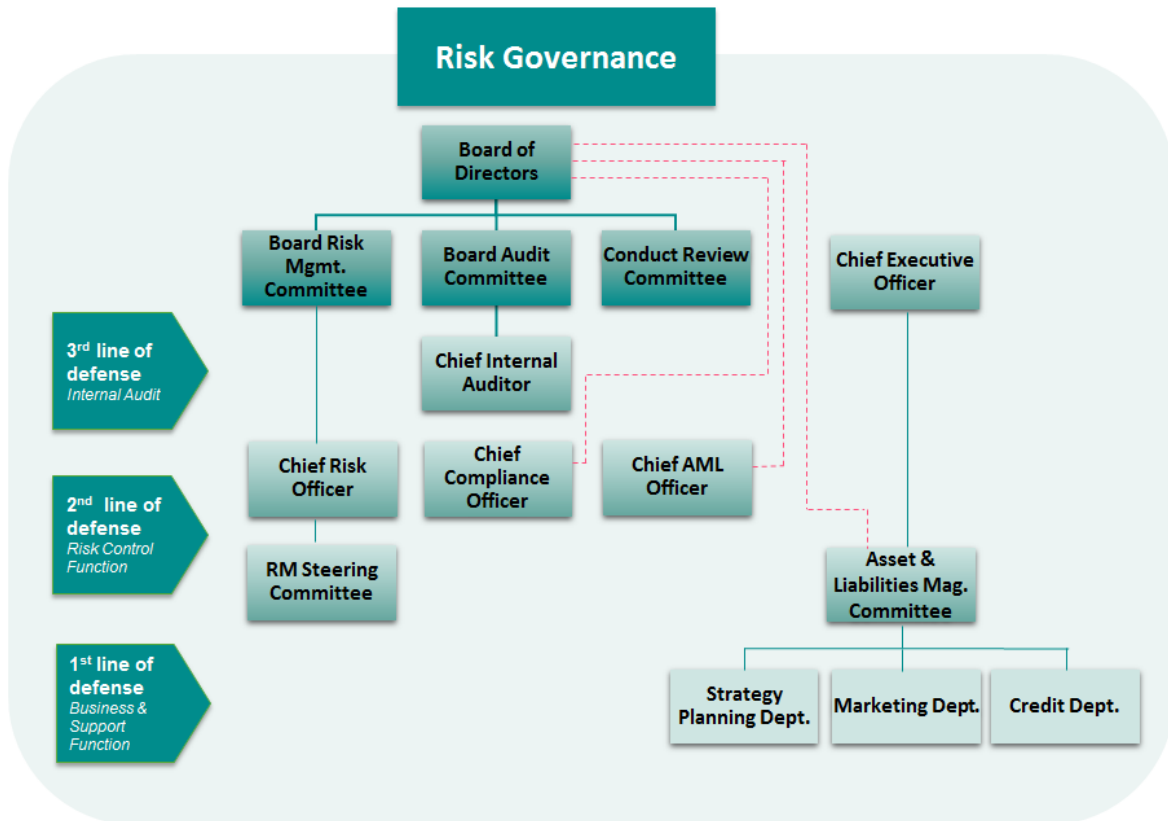


- **Organizational structure and framework**



- **Roles and Responsibilities of the Board and Directors, senior management and delegated committee**

- The Board approves business strategies that establish thresholds for liquidity risk (in excess of those mandated by regulators), risk appetite and related risk management policies.
- At least once a year, Risk Management Committee re-evaluates Liquidity Risk Management Policy as well as the business strategies that influence its exposure to interest rate risk.
- Risk Management Committee reviews the key assumptions used in liquidity risk measurement and management and the results of their sensitivity tests that are put into quarterly reports. Risk Management Committee reviews information that is sufficient in detail and timeliness to allow it to understand and assess the performance of senior management in monitoring and controlling these risks in compliance with approved policies.

- **Articulation of liquidity risk tolerance and a demonstration of how compliance with that tolerance is assessed**

- The Bank will maintain sufficient liquidity to meet the liquidity measurement standards and minimum liquidity requirements established by Office of the Superintendent of Financial Institutions (OSFI).

Liquidity coverage ratio (LCR)	The Bank will establish and maintain a liquidity reserve of unencumbered high quality liquid assets (HQLA) sufficient to cover its tactical liquidity requirements as determined to be optimal, but in any case, at a minimum limit defined as covering 100% of projected net cash outflows for 30 days.
Liquidity ratio	The Bank will maintain a liquid asset ratio (sum of total liquid assets to total assets) equal to at least 5% proposed.
Net cumulative cash flow (NCCF)	Net cumulative cash flow (NCCF) is a survival horizon metric that quantifies the length of time before an institution's cumulative net cash flow turns negative, factoring in OSFI defined assumptions. The minimum NCCF is 20 weeks as required by OSFI. The Bank will maintain NCCF for 3 Months.

- **Inclusion of quantitative measures**

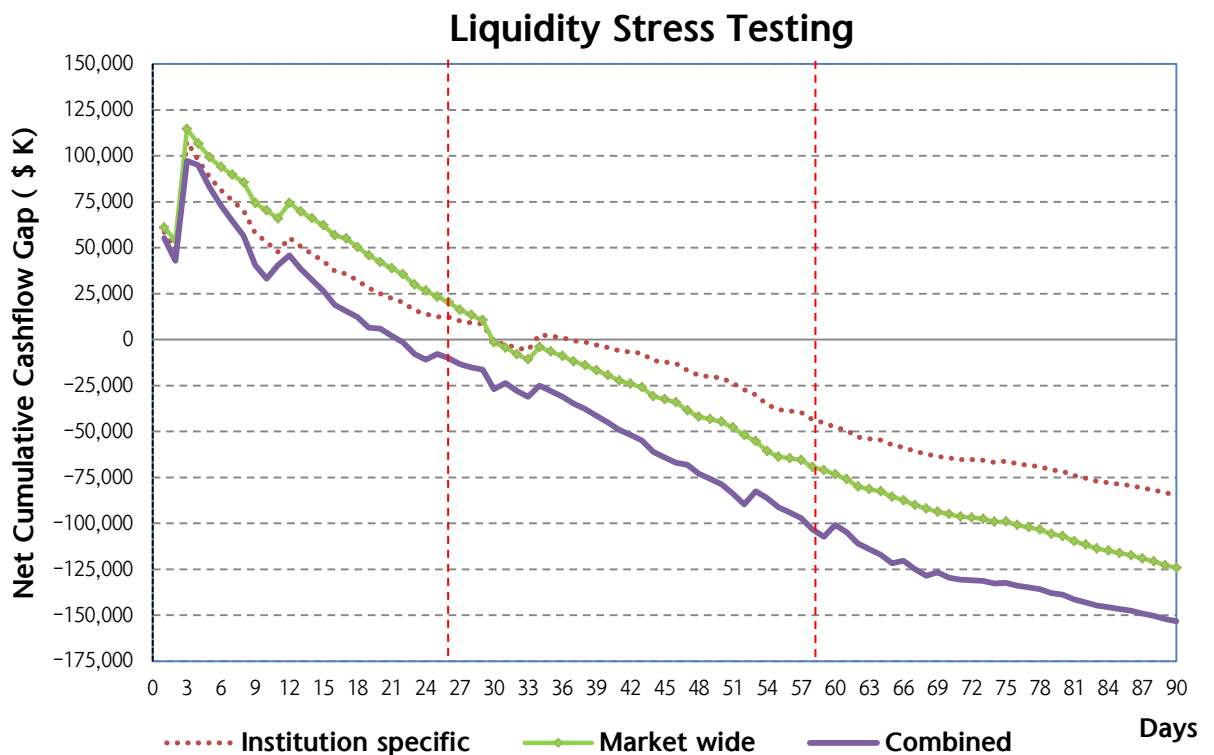
- The parametric approach is employed to determine the value of assumptions underlying liquidity stress testing. This approach can be expressed in formula as a measure of deviation from the mean with a confidence interval for a defined holding period:

$$\text{Value } (\alpha) = \mu + \sigma \times Z_{\alpha}$$

Where:

- Z_{α} is the reliability factor, a standard normal random variable for which the probability in the right tail of the distribution with the confidence interval of α
- σ is the standard deviation of risk factors over a time horizon of one month
- μ is the mean of risk factors

- The stress test is performed every month and managed under the capital buffer together with other risks. The results of the stress test are further utilized in combination with other measurements required by OSFI, such as LCR and NCCF.
- As of the end of December, the net cumulative cash flow under the combined scenario becomes negative on the fourteenth day of the month. The estimated survival period of the combined scenario thus records 21 days and the maximum gap within one month is determined to be \$27M.



● **Description of limit setting practices**

- A minimum operating liquidity level should be established to maintain a comfortable cushion beyond the minimum statutory requirement, in order to meet cash needs. A desired target maximum for operating liquidity also needs to be established to reflect the fact that too much liquidity has a negative effect on earnings. Accordingly,
- The Bank establishes and operates the liquidity gap ratio limit periodically for liquidity risk management which Risk Management Committee utilizes to resolve liquidity issues. Both regulatory and internal ratios are included in management target index and managed.

- **Overview of stress tests used**

- Three scenarios are developed in accordance with the Liquidity Principles Guideline (B-6): institution-specific, market-wide and combined scenario. In the scenario development, the degree of severity, institution-specific vulnerabilities and time horizons are considered.

Scenarios	Definition	Liquidity Crisis
Institution-Specific	<ul style="list-style-type: none"> • Negative news or rumors leading to a loss of market confidence • Duration of crisis : 30 days 	<ul style="list-style-type: none"> • Loss of market access to unsecured borrowing <ul style="list-style-type: none"> - reduction or cancellation of GICs funding • Huge runoff in retail and wholesale deposits
Market-Wide	<ul style="list-style-type: none"> • Deep economic recessions of default of primary market counterparty • Duration of crisis : 60 days 	<ul style="list-style-type: none"> • Professional demand deposits are withdrawn • Repo markets and unsecured interbank markets are closed • Credit lines granted are drawn by corporate clients
Combined	<ul style="list-style-type: none"> • Combination of firm-specific and market-wide liquidity crisis • Duration of crisis : 90 days 	<ul style="list-style-type: none"> • Combination of firm specific and market-wide liquidity crisis <ul style="list-style-type: none"> - Short-term firm-specific shocks (4 weeks) - Long-term market-wide shocks (4 weeks~3 months)

Risk Management Policies

- The Bank will manage interest rate risk and foreign exchange rate risk based on the following principles:
 - Interest rate risk and foreign exchange rate risk limits approved by the Board;
 - Establishment of processes to measure, monitor and report IR and FX risk exposures;
 - Establishment of practices enforcing pricing strategies considering maturity tendency and short- and long-term interest rate structure; and
 - Development of information systems and processes in place to support accurate measurement and reporting of IR and FX exposures.